



**MUNISIPALITEIT  
RICHTERSVELD  
MUNICIPALITY**

Die Richtersveld leuse is:

!Ghâi //Khoredi

Dit beteken: "Strewe na sukses" in Nama

**DRAFT ANNUAL BUDGET OF**

# **RICHTERSVELD MUNICIPALITY**

**2017/18 TO 2019/20  
MEDIUM TERM REVENUE AND  
EXPENDITURE FORECASTS**

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### Abbreviations and Acronyms

AMR Automated Meter Reading  
 BPC Budget Planning Committee  
 CBD Central Business District  
 CFO Chief Financial Officer  
 CPI Consumer Price Index  
 DBSA Development Bank of South Africa  
 DoRA Division of Revenue Act  
 DWA Department of Water Affairs  
 EE Employment Equity  
 EM Executive Mayor  
 FBS Free basic services

GAMAP Generally Accepted  
 Municipal Accounting Practice  
 GDP Gross domestic product  
 GFS Government Financial Statistics  
 GRAP General Recognised Accounting  
 Practice  
 HR Human Resources  
 HSRC Human Science Research Council  
 IDP Integrated Development Strategy  
 IT Information Technology  
 kℓ kilolitre

km kilometre  
 KPA Key Performance Area  
 KPI Key Performance Indicator  
 kWh kilowatt  
 l litre  
 LED Local Economic Development  
 MEC Member of the Executive Committee  
 MFMA Municipal Financial Management Act  
 Programme  
 MIG Municipal Infrastructure Grant  
 MM Municipal Manager  
 MMC Member of Mayoral Committee  
 MPRA Municipal Properties Rates Act  
 MSA Municipal Systems Act  
 MTEF Medium-term Expenditure Framework  
 MTREF Medium-term Revenue and Expenditure Framework

NERSA National Electricity Regulator South Africa  
 NGO Non-Governmental organisations  
 NKPIs National Key Performance Indicators  
 OHS Occupational Health and Safety  
 OP Operational Plan  
 PBO Public Benefit Organisations  
 PHC Provincial Health Care  
 PMS Performance Management System  
 PPE Property Plant and Equipment  
 PPP Public Private Partnership  
 RG Restructuring Grant  
 SALGA South African Local Government Association  
 SDBIP Service Delivery Budget Implementation Plan  
 SMME Small Micro and Medium Enterprises

## **Part 1 – Draft Annual Budget**

### **1.1 Mayor's Report**

Honourable councillors, municipal officials, partners in government, members of community, it is my privilege to present the draft 2017/18 annual budget.

This budget is a financial forecast of income and expenditure for Richtersveld Municipality.

It should be known that the municipality is currently serving an approximate 3300 households with basic services. This amount includes 1123 registered indigent households.

The total projected operational income amounts to R66 424 554.72 and the projected operation expenditure amounts to R66 354 232.82. This equates to a surplus of R70 321.90. The Budgeted Income and Expenditure for 2017/18 is based on a true reflection of actual expected outcomes at the end of June 2017.

### **Key Budgeted Expenditure Items**

Some of the budgeted amounts have been based on realistic and inflation based increases.

### **Personnel Costs**

- Salaries amount to 38.8% of total operating expenditure
- Salaries were increased by 7.4% as per MFMA Circular 86-2017
- New posts also included as well as performance bonuses

### **Other Expenditure**

Other expenditure amounts to R10 539 010.85 equalling 16% of operating expenditure.

### **Capital Expenditure**

The total Capital budgeted expenditure amounts to R24 847 600. The expenditure will be largely funded through National Grants i.e.:

- Sanddrift curbing and paving of streets –MIG Funding
- Port Nolloth Oxidation Ponds – MIG Funding
- Lekkersing curbing and paving of streets –MIG Funding
- Upgrade of Port Nolloth medium voltage network – INEP Funding
- Lekkersing , Eksteenfontein and Kuboes water supply – Water Services Infrastructure Grant Funding (WSIG)
- Desillation plant – RBIG

- Upgrade of Diamond City Sewer Line – EPWP
- Kerbing - EPWP
- Repair of potholes- EPWP
- Refurbishment of the electrical mini substations structures - EPWP

The Municipality strives to adhere to realistic anticipated revenue. The municipality also made use of National Treasury Guidelines i.r.o. inflation and economic trends to compile 2017/18 MTREF.

### **Financial Management Grant (FMG)**

The allocation for 2017/18 financial year amounts to R1 900 000.00. This grant will be used for salaries of interns and the majority for implementation of MSCOA.

### **Management Systems Improvement Grant (MSIG)**

The municipality has received no allocation i.r.o. 2017/18 financial year

### **Service Charges**

The majority of tariffs were increased by 6.1% in line with Circular 85. Electricity tariffs were increased by 8 % as per MFMA Circular 85. The electricity rates still to be confirmed with NERSA.

### **Free Basic Services**

Registered households with an income not exceeding R 3 300.00 per household qualifies for this subsidy. The subsidy consists of 6 kiloliter of free water, 50 kwh electricity, free refuse removal and free sanitation per month.

## **1.2 Council Resolutions**

On 28 March 2017, the Council of Richtersveld Local Municipality met in the Council Chambers to consider the Draft Annual Budget of the municipality for the financial year 2017/18. The Council approved and adopted the following resolutions:

1. The Council of Richtersveld Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1. The Draft Annual budget of the municipality for the financial year 2017/18 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification).
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote).
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type).
    - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
2. The Council of Richtersveld Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2017:
  - 2.1. the tariffs for property rates
  - 2.2. the tariffs for electricity
  - 2.3. the tariffs for the supply of water
  - 2.4. the tariffs for sanitation services
  - 2.5. the tariffs for solid waste services
  - 2.6. sundry income
3. The Council of Richtersveld Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2017 the tariffs for other services.

## **1.3 Executive Summary**

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainable, economically and equitably to all communities.

The Municipalities' business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51, 54, 58, 59, 66, 67, 70, 72, 74, 75, 78, 85, 86 and 79 were used to guide the compilation of the 2017/18 MTREF.

The main challenges experienced during the compilation of the 2017/18 MTREF can be summarised as follows:

- The continuing difficulties in the national and local economy;
- Ageing of water, sewerage, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will come a point where services will no longer be affordable to the community;
- Wage increases for municipal staff that continues to exceed consumer inflation.
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2017/18 MTREF process; and
- The municipality is grant dependant as the income from consumers will not be able to fund operations
- The vastness of the municipal jurisdiction also attributes to the increase in direct and indirect cost to provide services to remote communities.

The following budget principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The 2016/17 Adjustments Budget priorities and targets, as well as the base line allocations contained in the Adjustments Budget were adopted as the upper limits for the new baselines for the 2017/18 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there

are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2017/18 MTREF**

<b>R thousands</b>	<b>Budget Year 2017/2018</b>	<b>Budget Year 2018/2019</b>	<b>Budget Year 2019/2020</b>
Total Operating Revenue	66 424 554	69 308 923	<b>72 254 674</b>
Total Operating Expenditure	66 354 232	<b>68 365 200</b>	<b>70 953 202</b>
Surplus/(Deficit) for the year	70 321.90	<b>943 722</b>	<b>1 301 471</b>
Total Capital Expenditure	24 847 600	40 529 000	53 311 000





#### **1.4 Operating Revenue Framework**

For Richtersveld Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2017/18 MTREF (classified by main revenue source):

**Table 2: Summary of revenue and expenditure by standard classification**

NC061 Richtersveld - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)										
Functional Classification Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Revenue - Functional</b>										
<i>Governance and administration</i>		-	-	-	-	-	-	34 519	36 628	38 128
Executive and council		-	-	-	-	-	-	-	-	-
Finance and administration		-	-	-	-	-	-	34 519	36 628	38 128
Internal audit		-	-	-	-	-	-	-	-	-
<i>Community and public safety</i>		-	-	-	-	-	-	3 312	1 974	1 958
Community and social services		-	-	-	-	-	-	1 300	(12)	(13)
Sport and recreation		-	-	-	-	-	-	1 997	1 971	1 956
Public safety		-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	19	19	19
Health		-	-	-	-	-	-	(4)	(4)	(4)
<i>Economic and environmental services</i>		-	-	-	-	-	-	7 549	7 694	7 850
Planning and development		-	-	-	-	-	-	33	32	32
Road transport		-	-	-	-	-	-	7 516	7 662	7 818
Environmental protection		-	-	-	-	-	-	-	-	-
<i>Trading services</i>		-	-	-	-	-	-	44 629	63 542	77 630
Energy sources		-	-	-	-	-	-	19 864	31 593	38 194
Water management		-	-	-	-	-	-	16 212	23 189	30 428
Waste water management		-	-	-	-	-	-	3 834	3 808	3 803
Waste management		-	-	-	-	-	-	4 718	4 952	5 204
<i>Other</i>	4	-	-	-	-	-	-	-	-	-
<b>Total Revenue - Functional</b>	2	-	-	-	-	-	-	90 009	109 838	125 566
<b>Expenditure - Functional</b>										
<i>Governance and administration</i>		-	-	-	-	-	-	30 273	31 193	32 561
Executive and council		-	-	-	-	-	-	7 931	8 322	8 817
Finance and administration		-	-	-	-	-	-	22 342	22 871	23 744
Internal audit		-	-	-	-	-	-	-	-	-
<i>Community and public safety</i>		-	-	-	-	-	-	6 063	6 447	6 850
Community and social services		-	-	-	-	-	-	2 555	2 720	2 892
Sport and recreation		-	-	-	-	-	-	2 699	2 869	3 048
Public safety		-	-	-	-	-	-	50	53	56
Housing		-	-	-	-	-	-	675	719	766
Health		-	-	-	-	-	-	84	86	89
<i>Economic and environmental services</i>		-	-	-	-	-	-	6 190	6 453	6 777
Planning and development		-	-	-	-	-	-	2 003	2 120	2 241
Road transport		-	-	-	-	-	-	4 188	4 334	4 536
Environmental protection		-	-	-	-	-	-	-	-	-
<i>Trading services</i>		-	-	-	-	-	-	23 828	24 272	24 765
Energy sources		-	-	-	-	-	-	15 031	14 978	14 798
Water management		-	-	-	-	-	-	3 386	3 567	3 934
Waste water management		-	-	-	-	-	-	2 838	2 996	3 125
Waste management		-	-	-	-	-	-	2 572	2 731	2 908
<i>Other</i>	4	-	-	-	-	-	-	-	-	-
<b>Total Expenditure - Functional</b>	3	-	-	-	-	-	-	66 354	68 365	70 953
<b>Surplus/(Deficit) for the year</b>		-	-	-	-	-	-	23 654	41 473	54 612

Capital transfers and contributions are excluded from the operating statements, in order to see the surplus/ deficit.

Plans are in place to address the lack of revenue collected and improve the collection rate. These include the cutting of services and sending lawyers letters to consumers whose accounts have been in arrears for long periods

### **Property Rates**

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R25 000 of the market value of a property used for residential purposes is excluded from the rateable value (Section 17(h) of the MPRA).

**Table 3 Comparison of proposed rates to be levied for the 2016/2017 financial year**

<b>Category</b>	<b>Current tariff (1 July 2016)</b>	<b>Proposed tariff (1 July 2017)</b>
Residential Properties	0.0099122	0.0105168
Business & Commercial	0.0131559	0.0139584
Farms	0.0015275	0.0016206
Mining activities	0.0297377	0.0315516
Developed Erven (households & businesses)	0.0331528	0.0351751

### **Sale of Water and Impact of Tariff Increases**

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand outgrows the supply. Richtersveld Municipality carefully reviewed the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

**Table 4 Proposed Water Tariffs**

<b><i>Category Residential</i></b>	<b><i>Proposed tariff (1 July 2016)</i></b>	<b><i>Current tariff (1 July 2017)</i></b>
0-6kl	10.65	11.30
7-20 kl	11.39	12.09
21+kl	12.17	12.92

<b><i>Category Commercial</i></b>	<b><i>Proposed tariff (1 July 2016)</i></b>	<b><i>Current tariff (1 July 2017)</i></b>
0-2 kl	12.97	13.77
3+kl	13.72	14.56

<b><i>Category Industrial</i></b>	<b><i>Current tariff (1 July 2016)</i></b>	<b><i>Proposed tariff (1 July 2016)</i></b>
0-2 kl	13.17	14.18
3+kl	13.92	14.97

### **Sale of Electricity and Impact of Tariff Increases**

NERSA has announced the revised bulk electricity pricing structure. An 8 % increase in terms of electricity sales will be effective from 1 July 2017.

Considering the Eskom increases, the consumer tariff had to be increased by a 8 per cent to offset the additional bulk purchase cost from 1 July 2017. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity. Registered indigents will again be granted 50 kWh per 30-day period free of charge.

Currently electricity is operating at a deficit. The Municipality will have to implement a strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term.

### **Sanitation and Impact of Tariff Increases**

Currently, sanitation operates at as surplus. In most cases, a tariff increase of 6.1% (inflation) for sanitation from 1 July 2017 is proposed. (as per circular 85).

The following table compares the current and proposed tariffs:

**Table 5 Comparison between current sanitation charges and increases**

<b>Category</b>	<b>Proposed tariff (1 July 2016)</b>	<b>Current tariff (1 July 2017)</b>
Availability	73.92	78.43
Suction tank removals	131.31	139.32
Sanitation	81.51	86.49
Excess removals (normal hours)	135.00	143.24
Excess removals (after hours)	270.00	286.47
Sanitation connections	2430.52	2578.79
Blockage services	329.87	350.00
Sanitation- Muisvlak	633.49	672.14
Sanitation- Guesthouses	131.31	139.19
Suction tank removal- Industrial areas	170.00	180.37

### **Waste Removal and Impact of Tariff Increases**

Currently solid waste removal is operating at a surplus. In most cases, a tariff increase of 6.1% (inflation) for sanitation from 1 July 2017 is proposed. (as per circular 85) .

The following table compares current and proposed amounts payable from 1 July 2017:

**Table 6 Comparison between current waste removal fees and increases**

<b>Category</b>	<b>Proposed tariff (1 July 2016)</b>	<b>Current tariff (1 July 2017)</b>
Availability	67.22	71.32
Sales- Households	72.12	76.51
Sales- Commercial	270.60	287.10
Extra removals (bakkie)	400.58	425.01
Extra removals (truck)	744.14	789.53
Refuse removal- Muisvlak	633.38	672.01

Removal- Perishables	400.00	424.40
Guesthouses	137.63	146.02

### **Operating Expenditure Framework**

The Municipalities expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- The asset lease strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) ;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

### **Summary of operating expenditure by standard classification item**

Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.4 per cent for the 2017/18 financial year.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipalities budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures exclude distribution losses.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This amounts to R10 539 010.85. This amount includes repairs and maintenance, fuel costs , etc.

### **Free Basic Services: Basic Social Services Package**

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipalities Indigent Policy. This process is reviewed annually. The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

## Capital expenditure

For 2017/18 an amount of R24 847 600.00 has been appropriated for the development of infrastructure on the capital budget

NC061 Richtersveld - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding											
Vote Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1										
<b>Capital expenditure - Vote</b>											
<b>Multi-year expenditure to be appropriated</b>	2										
Vote 1 - Executive and council		-	-	-	-	-	-	-	-	-	-
Vote 2 - Administration: Corporate		-	-	-	-	-	-	-	-	-	-
Vote 3 - Administration: Community		-	-	-	-	-	-	-	-	-	-
Vote 4 - Financial Services		-	-	-	-	-	-	-	-	-	-
Vote 5 - Infrastructure		-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	7	-	-	-	-	-	-	-	-	-	-
<b>Single-year expenditure to be appropriated</b>	2										
Vote 1 - Executive and council		-	-	-	-	-	-	-	161	-	-
Vote 2 - Administration: Corporate		-	-	-	-	-	-	-	195	-	-
Vote 3 - Administration: Community		-	-	-	-	-	-	-	800	-	-
Vote 4 - Financial Services		-	-	-	-	-	-	-	110	-	-
Vote 5 - Infrastructure		-	-	-	-	-	-	-	23 582	40 529	53 311
Capital single-year expenditure sub-total		-	-	-	-	-	-	-	24 848	40 529	53 311
Total Capital Expenditure - Vote		-	-	-	-	-	-	-	24 848	40 529	53 311
<b>Capital Expenditure - Functional</b>											
<b>Governance and administration</b>		-	-	-	-	-	-	-	1 249	-	-
Executive and council		-	-	-	-	-	-	-	161	-	-
Finance and administration		-	-	-	-	-	-	-	1 088	-	-
Internal audit		-	-	-	-	-	-	-	-	-	-
<b>Community and public safety</b>		-	-	-	-	-	-	-	17	-	-
Community and social services		-	-	-	-	-	-	-	2	-	-
Sport and recreation		-	-	-	-	-	-	-	-	-	-
Public safety		-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	15	-	-
Health		-	-	-	-	-	-	-	-	-	-
<b>Economic and environmental services</b>		-	-	-	-	-	-	-	4 181	-	-
Planning and development		-	-	-	-	-	-	-	-	-	-
Road transport		-	-	-	-	-	-	-	4 181	-	-
Environmental protection		-	-	-	-	-	-	-	-	-	-
<b>Trading services</b>		-	-	-	-	-	-	-	19 401	40 529	53 311
Energy sources		-	-	-	-	-	-	-	7 000	18 000	23 844
Water management		-	-	-	-	-	-	-	6 000	15 000	21 782
Waste water management		-	-	-	-	-	-	-	6 401	7 529	7 685
Waste management		-	-	-	-	-	-	-	-	-	-
<b>Other</b>		-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Functional	3	-	-	-	-	-	-	-	24 848	40 529	53 311
<b>Funded by:</b>											
National Government		-	-	-	-	-	-	-	20 382	40 529	53 311
Provincial Government		-	-	-	-	-	-	-	752	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	-	-	-	2 450	-	-
Transfers recognised - capital	4	-	-	-	-	-	-	-	23 584	40 529	53 311
Public contributions & donations	5	-	-	-	-	-	-	-	-	-	-
Borrowing	6	-	-	-	-	-	-	-	-	-	-
Internally generated funds		-	-	-	-	-	-	-	1 264	-	-
Total Capital Funding	7	-	-	-	-	-	-	-	24 848	40 529	53 311



## **Part 2 – Supporting Documentation**

### **Overview of the annual budget process**

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee is incorporated in the Financial Steering Committee and consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Mayor.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipalities IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

### **Overview of alignment of annual budget with IDP**

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the

development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPis);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
  - Provide electricity;
  - Provide water;
  - Provide sanitation;
  - Provide waste removal;
  - Provide housing;
  - Provide roads and storm water;
  - Maintaining the infrastructure of the Municipality.
2. Economic growth and development that leads to sustainable job creation by:
  - Ensuring there is a clear structural plan for the Municipality;
  - Ensuring planning processes function in accordance with set timeframes;
  - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
- 3.1 Fight poverty and build clean, healthy, safe and sustainable communities:
  - Effective implementation of the Indigent Policy;
  - Working with the provincial department of health to provide primary health care services;
  - Extending waste removal services and ensuring effective cleansing;
  - Ensuring all waste water treatment works are operating optimally;
  - Working with strategic partners such as SAPS to address crime;
  - Ensuring safe working environments by effective enforcement of building and health regulations;
  - Promote viable, sustainable communities through proper zoning; and
  - Promote environmental sustainability by protecting wetlands and key open spaces.
- 3.2 Integrated Social Services for empowered and sustainable communities
  - Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme
4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
  - Optimising effective community participation in the ward committee system; and
  - Implementing Batho Pele in the revenue management strategy.
- 5.1 Promote sound governance through:
  - Publishing the outcomes of all tender processes on the municipal website

5.2 Ensure financial sustainability through:

- Reviewing the use of contracted services
- Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

5.3 Optimal institutional transformation to ensure capacity to achieve set objectives

- Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the Municipality undertakes an extensive planning and developmental strategy. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the Municipality's IDP, associated sectoral plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the revised IDP, including:

- Strengthening the analysis and strategic planning processes of the Municipality;
- Involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The IDP revision process is underway and the public participation process has been concluded and needs have been identified by the community members. As soon as the IDP has been completed the compilation of the SDBIP will take place.

### **Overview of budget related-policies**

Draft financial policies will be reviewed and tabled with the final budget.

## **Overview of budget assumptions**

### **External factors**

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipalities finances.

### **General inflation outlook and its impact on the municipal activities**

There are four key factors that have been taken into consideration in the compilation of the 2017/18 MTREF:

- National Government macro- economic targets;
- The general inflationary outlook and the impact on Municipalities residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and

### **Collection rate for revenue services**

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

### **Growth or decline in tax base of the municipality**

Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

### **Salary increases**

The collective agreement i.r.o. salaries/wages was concluded in 2014/15 financial year and will lapse end June 2018. The increase for 2017/18 will be implemented as

per MFMA Circular 85 , which is 6.4% with an additional 1% increase, totalling 7.4% for 2017/18.

### **Impact of national, provincial and local policies**

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

### **Cash Flow Management**

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understanding ability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from 'Ratepayers and other' to be provided for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

NC061 Richtersveld - Table A7 Budgeted Cash Flows											
Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	-	-	-	-	-	13,101	12,487	13,635
Service charges		-	-	-	-	-	-	-	32,352	30,454	32,923
Other revenue		-	-	-	-	-	-	-	3,260	3,281	3,318
Government - operating	1	-	-	-	-	-	-	-	17,654	18,371	18,989
Government - capital	1	-	-	-	-	-	-	-	23,584	40,529	53,311
Interest		-	-	-	-	-	-	-	430	426	425
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		-	-	-	-	-	-	-	(58,277)	(60,529)	(63,226)
Finance charges		-	-	-	-	-	-	-	-	(0)	(0)
Transfers and Grants	1	-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		-	-	-	-	-	-	-	32,102	45,018	59,375
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Decrease (Increase) in non-current debtors		-	-	-	-	-	-	-	(162)	11	11
Decrease (Increase) other non-current receivables		-	-	-	-	-	-	-	-	-	-
Decrease (Increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		-	-	-	-	-	-	-	(24,848)	(40,529)	(53,311)
NET CASH FROM/(USED) INVESTING ACTIVITIES		-	-	-	-	-	-	-	(25,010)	(40,518)	(53,300)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		-	-	-	-	-	-	-	1,025	58	61
Payments											
Repayment of borrowing		-	-	-	-	-	-	-	-	(1,399)	0
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	1,025	(1,341)	61
NET INCREASE/ (DECREASE) IN CASH HELD											
Cash/cash equivalents at the year begin:	2	-	-	-	-	-	-	-	8,118	3,159	6,135
Cash/cash equivalents at the year end:	2	-	-	-	-	-	-	-	(2,055)	6,063	9,222
		-	-	-	-	-	-	-	6,063	9,222	15,357

### Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

NC061 Richtersveld - Table A8 Cash backed reserves/accumulated surplus reconciliation											
Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand											
Cash and investments available											
Cash/cash equivalents at the year end	1	-	-	-	-	-	-	-	6,063	9,222	15,357
Other current investments > 90 days		-	-	-	-	-	-	-	0	0	0
Non current assets - Investments	1	-	-	-	-	-	-	-	-	-	-
Cash and investments available:		-	-	-	-	-	-	-	6,063	9,222	15,357
Application of cash and investments											
Unspent conditional transfers		-	-	-	-	-	-	-	-	-	-
Unspent borrowing		-	-	-	-	-	-	-	-	-	-
Statutory requirements	2	-	-	-	-	-	-	-	-	-	-
Other working capital requirements	3	-	-	-	-	-	-	-	(25,951)	(24,856)	(26,939)
Other provisions		-	-	-	-	-	-	-	-	-	-
Long term investments committed	4	-	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	5	-	-	-	-	-	-	-	-	-	-
Total Application of cash and investments:		-	-	-	-	-	-	-	(25,951)	(24,856)	(26,939)
Surplus(shortfall)		-	-	-	-	-	-	-	32,014	34,078	42,296

## Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

### 1. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the website.

### 2. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department.

### 3. Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2017/18 MTREF in May 2017 directly aligned and informed by the 2017/18 MTREF.

### 4. Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

### 5. Policies

An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.



**Municipal manager's quality certificate**

I, Dibere Maposa, acting municipal manager of Richtersveld Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Richtersveld Local Municipality (NC061)

Signature \_\_\_\_\_

Date \_\_\_\_\_

RICHTERSVELD MUNICIPALITY